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# Financial Resources of the National Economy Development: Formation and Priority Application Areas

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**ABSTRACT.** The issue of formation and uses of the national economy financial resources was considered. In theory, the essence of definition of "financial resources" was summarized and substantiated at the micro, meso- and macrolevel. The problems of forming the financial resources of the state, namely the state budget, as a major national fund of the centralized financial resources were summarized and substantiated. The basic macroeconomic indicators characterizing the status of the financial resources of Ukraine and their use in 2005-2015 were analyzed. The structure of tax and non-tax revenues to the state budget was shown. Much attention was paid to the budget spending, reflecting the priorities of socio-economic development. The changes in the budget deficit ratio to the GDP of Ukraine and its relationship with the public debt were studied. The priority areas of using the national financial resources were revealed.

**KEYWORDS.** Financial resource, gross domestic product, household financial resources, corporate finance, public finance, budget revenues, budget expenditures, state budget deficit, public debt.

## Introduction

Today, in Ukraine there is a fairly stiff competition between Ukrainian and foreign companies, and the consumer demands for goods and services offered on the market are increased. Financial resources are the material basis of finances and determine the financial strength of any economic entity, creating the favourable conditions for its industrial and R&D development<sup>2</sup>.

A characteristic feature of finance for any economic system is that the financial resources are the material carriers of financial relations, while standing out from the set of the other economic categories. Thus, the process of formation, distribution and use of financial resources and is

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\* This article was translated from its original in Ukrainian.

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<sup>2</sup> Petyk, M.I. "The economic essence and purpose of financial resources to provide economic entity." *Actual problems of the regional economy: Scientific Journal* 1 no. IV (2008): 198-204. [In Ukrainian].

subject to economic evaluation. Here appears the determined dependence, i.e. finance as a system of economic relations find their clear and specific expression in financial resources.

### **Theoretical Essential Aspect of the Definition of "Financial Resources"**

Research of the etymology of the "resource" term allows figuring out that it is borrowed from French. Resources from the Latin *resourgo* is "appear again". Translated from French, the term of *resource* means an aid, something which can be used from a source (supplies, equipment, materials, etc.) for a specific purpose. And the concept of finance comes from the Latin *finantia*, a payment, and from French *finances*, i.e. funds<sup>3</sup>. So, based on this etymological definition, we can conclude that financial resources are payments, aids, describing the use, spending and repayment of funds.

*Financial resources are:*

- the stock of funds generated by the state, business entities and population and being in their possession;
- describing the financial condition of the economy and also is a source of development;
- derived from different types of income, earnings and deductions;
- used for expanded reproduction, material incentives, meeting the social and other needs of society.

The financial resources of the state are an integral system of social relations associated with formation, distribution and use of the centralized and decentralized stocks of funds to implement the tasks and functions of the state.

They appear in two ways:

- *centralized financial resources* formed at the state level in the course of its financial activities;
- *decentralized financial resources* formed at the level of business entities to ensure their business activities and at the household level to ensure the proper living conditions of the household members and their reproduction<sup>4</sup>.

To form a systemic idea of financial resources of the state it is essential to study the distribution between the levels of the economic system. Allocation of resources makes it possible to prioritize the public policies and compare the same with legislated functions of the state.

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<sup>3</sup> Shkrobot, M.V. "Determining the economic substance of the term "financial resources". *Economic analysis: scientific research journal* 8, part 1 (2011): 339-342. [In Ukrainian].

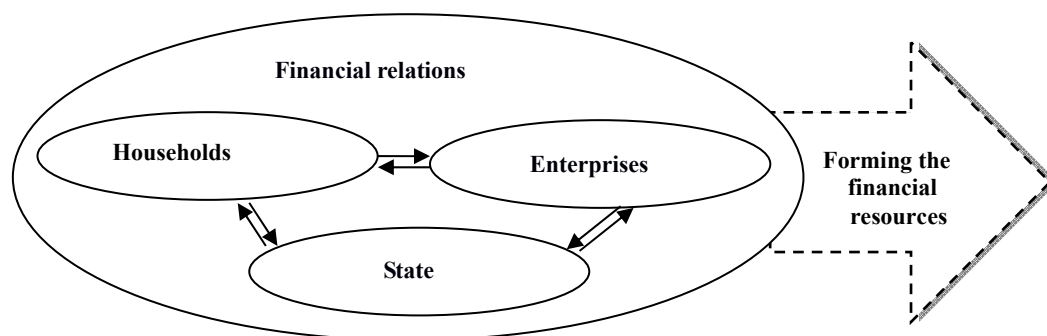
<sup>4</sup> Stojko, O. Ya. and D. I. Dema *Finances*. Edited by V.V. Buryakovskyy. K.: Alerta, 2014. [In Ukrainian].

In accordance with one of the common approach, financial resources in the state are accumulated in the country at the following levels:

- *at the micro level*, i.e. within households. The sources of their formation can be both resources of the public finance and corporate resources. In other words, they are accumulated in establishment of the gross domestic product (GDP) and its redistribution. At this level, the financial resources are presented as income, savings (deposits and investments in the banking system) etc.;
- *at the meso level*, in the businesses, the financial resources are the result of division of the gross domestic product (GDP) newly created in the economy. They have the form of the corporate capital, profits, investments etc.;
- *at the macro level*, the financial resources are generated through distribution, redistribution and centralization of the gross domestic product and having the form of the budgetary and extra-budgetary stock of funds<sup>5</sup>.

Thus, *the subjects of financial resources* are:

- 1) households (individuals);
- 2) enterprises, associations, companies (legal entities holding the decentralized financial resources);
- 3) state in the form of various budgets and off-budget stocks (Fig. 1).



**Fig. 1.** Objects and Subjects of Financial Relations

The relationship between the subjects is determined by the market relations. The greater the independence of individuals and legal entities, the better is the chance that they generate the financial resources. In turn, this provides for an increase in the revenues of state financial resources. The optimum ratio between them is determined by the state

<sup>5</sup> Vasylyk, O. D. *Public finances: a textbook*. Kiev: Center of Studies Literatures, 2004. [In Russian]; Fedosov, V. M. and S.I. Yuriy. *Finance Theory: Textbook*. Kiev: CzUL, 2010. [In Russian].

based on scientifically proven calculation embedded in the socio-economic outlook of the country.

*The objects of financial resources* are financial relationships generating the target cash funds.

The economic space has not yet produced a single, generally accepted view of the definition of "financial resources". The issues related to its definition were researched by many scientists. All investigators of economic nature of financial resources can be subdivided into those who consider the financial resources in terms of the households (micro level), enterprises (meso level) and those who consider this economic category in terms of the state (macro level) (Table 1).

**Table 1 Disclosure of the Concept of "Financial Resources" by Various Authors**

Author	Definition
<b>Macrolevel</b>	
Romanenko O.R. <sup>6</sup>	The financial resources of the state are the financial resources of business structures of the public and private ownership
Stoiko O.Y. <sup>7</sup>	The financial resources of the state are a holistic system of social relations associated with formation, distribution and use of the centralized and decentralized stocks of funds to fulfill the tasks and functions of the state.
Yukhymenko P.I. <sup>8</sup>	Financial resources are a collection of funds held by the state and business entities
Vasylyk O.D. <sup>9</sup>	Financial resources are the monetary funds created in the course of distribution, redistribution and use of the gross domestic product created for a certain time in the country
Moliakov D.S. <sup>10</sup>	Financial resources are funds held by the state, enterprises, business entities and institutions and used to fund the costs and form various funds and reserves.
Dekhtiar N.A. <sup>11</sup>	Financial resources are a system of economic relations on formation and distribution of financial resources of the public sector to ensure their effective development, meeting the social and economic needs of society and proper observance of national security.
Mishyna S.V. <sup>12</sup>	Financial resources are a combination of cash in the stock, non-stock or in-kind form generated in the course of distribution and redistribution of the gross domestic product in order to expand the reproduction and meet the other social needs.

<sup>6</sup> Romanenko, O. R. *Finances*. K.: Center of educational literature, 2004. [In Ukrainian].

<sup>7</sup> Stojko, O. Ya. and D. I. Dema *Finances*. Edited by V.V. Buryakovskyy. K.: Alerta, 2014. [In Ukrainian].

<sup>8</sup> Yuxy'menko, P. I. *Theory of Finance*. Edited by Fedosov, V. M. and S.I. Yuriy. Kiev: CzUL, 2010. [In Ukrainian].

<sup>9</sup> Vasylyk, O. D. *Theory of Finance*. K.: NIOS, 2000. [In Ukrainian]

<sup>10</sup> Molyakov, D. S. *Finance of Enterprises sectors of economy*. M.: Finansy' i staty'sty'ka, 2000. [In Ukrainian].

<sup>11</sup> Dextyar, N. A., and O. V. Dejneka. "Fundamentals of Finance Functioning of the Public Sector as Part of the Financial System of Ukraine." *Visny'k UABS* 1, no. 26 (2009): 24-29. [In Ukrainian].

<sup>12</sup> Mishy'na, S. V. *Organizational-economic mechanism of financial management in the enterprise*. Kharkiv: KhNEU, 2006: 8 [In Ukrainian].

Author	Definition
Senchahov V.K. <sup>13</sup>	Financial resources of the economy are a combination of cash savings, depreciation allocations and other funds generated during the process of distribution and redistribution of the social product.
Zavhorodniy T.S., Vozniuk G.L., Smovzhenko T.S. <sup>14</sup>	The totality of funds held by the state and business entities.
Pavliuk K.V. <sup>15</sup>	This is cash accumulation and income generated in the course of distribution and redistribution of the gross domestic product and concentrated in the relevant stocks to ensure the continuity of expanded reproduction and meeting the other social needs.
<b>Mesolevel</b>	
Buriakovskiy V.V. <sup>16</sup>	Financial resources of the enterprises are the earmarked funds formed in the course of distribution and redistribution of the national wealth, GDP, national income, and used for implementation of statutory objectives of the enterprise.
Ziatkovskiy I.V. <sup>17</sup>	Financial resources can be considered a set of earmarked funds generated in the course of distribution and redistribution of GDP created in the company, disposed of by it under the right of ownership or full economic management and used for statutory requirements.
Textbook ed. by Poddyerogina A.M. <sup>18</sup>	The financial resources should be understood as cash available to businesses. Thus, the financial resources include the cash funds and forming a part of funds used in the non-stock form.
Kireitsev G.G. <sup>19</sup>	Financial resources are cash income and revenues of enterprises intended to meet its financial obligations and fund the cost of providing an extended reproduction.
Oparin V.N. <sup>20</sup>	Financial resources can be considered a set of earmarked funds generated in the course of distribution and redistribution of the gross domestic product created in the company disposed of by it under the right of ownership or full economic management and used for statutory requirements.
Blank I.A. <sup>21</sup>	Financial resources is a combination of accumulated equity and debt and their equivalents in the form of earmarked funds allocated for its economic activity in the future period.
Zavhorodniy A.G. <sup>22</sup>	Financial resources are the funds available to the company and intended for the ongoing expenses and costs of expanded reproduction, to meet the financial obligations and provide economic incentives to employees.

<sup>13</sup> Senchagov, V.K. ed. *The financial resources of the national economy. (Problems of formation and use)*. M.: Finance and Statistics, 1982. [In Russian].

<sup>14</sup> Zavgorodnij, A. G., Voznyuk, G. L. and T. S. Smovzhenko. *Financial Dictionary*. K.: TOV «Znannya», KOO, 2000. [In Ukrainian].

<sup>15</sup> Pavlyuk, K.V. *The financial resources of the state: a monograph*. K.: NIOS, 1997: 24 [In Ukrainian].

<sup>16</sup> Buryakovskyy, V.V., Karmazyn, V.Ya. and. S.V. Kalambet. *Finance of the Enterprises: Textbook*. Edited by V.V. Buryakovskyy. Dnepr: Porohy, 1998. [In Russian].

<sup>17</sup> Ziatkovs'kyj, I.V. *Finance of Enterprises: Tutorial*. Ternopil': Ekonomichna Dumka, 1999. [In Ukrainian].

<sup>18</sup> Poddyerogin, A.M. ed. *Finance of Enterprises: Textbook*. K.: KNEU, 2002. [In Ukrainian].

<sup>19</sup> Kirejcev, G. G. *Financial Management*. K.: CzUL, 2007. [In Ukrainian].

<sup>20</sup> Oparin, V. M. "Financial resources and social capital." *Visnyk NBU* 7 (2001): 26-28. [In Ukrainian].

<sup>21</sup> Blank, I. A. *Financial Management*. K.: Elga, Nick Center, 2005. [In Ukrainian].

<sup>22</sup> Zavgorodnij, A. G., Voznyuk, G. L. and T. S. Smovzhenko. *Financial Dictionary*. K.: TOV «Znannya», KOO, 2000. [In Ukrainian].

Author	Definition
Gudz O.Y. <sup>23</sup>	Financial resources are a collection of all available highly liquid assets held by the company and designed to meet the financial obligations and expanded reproduction linking their volume and composition to the company solvency.
Stasiuk G.A. <sup>24</sup>	Financial resources are the sources of the company funds used for generation of its assets.
<b>Microlevel</b>	
Yuriy S.I., Fedosov V.M. <sup>25</sup>	Financial resources of the households are money (own and borrowed) in its possession and designed to meet the financial obligations and incur various kinds of costs (manufacturing and consumer). They include the cash income, the cost of products from the personal subsidiary economy, benefits and subsidies, as well as the other revenues.
Yanin O.Y. <sup>26</sup>	Financial resources of the households are the total stock of funds in the family's possession.
Heronin N.N. <sup>27</sup>	Financial resources of the households are total result of the current flow of income and savings derived in the course of creation and redistribution of the gross domestic product over a certain period (sales item) and previously accumulated income as the cash part of the condition as of the date (stock item).
Kizyma T.O. <sup>28</sup>	Financial resources of the households are the income and expenses as a material expression of financial relationships of the households with the other economic operators.
Fedosov V.M. <sup>29</sup>	Financial resources of the households are a total stock of funds held by the family created as a result of industrial activity of the household members, it forms a part of society national income.
Levchayev P.O. <sup>30</sup>	Financial resources are the current and potentially available means, which, can be accepted and used as signs of the distributed cost to maintain the desired proportions of operation.

The uncertainty in interpretation of the economic substance of financial resources and insistence on the stock nature of funds as a condition of their assignment to the financial resources is associated with concentration of financial resources in different parts of the financial system, primarily the public and corporate finance. Therefore, defining the "financial resources", we need to clearly separate the limits of their functioning, i.e. financial resources of the state (state and local

<sup>23</sup> Gudž', O. Ye. *Financial resources of agricultural enterprises*. K.: NNCz IAE, 2007. [In Ukrainian].

<sup>24</sup> Stasyuk, G. A. *Finance of Enterprises*. Kherson: Oldie Plus, 2004. [In Ukrainian].

<sup>25</sup> Fedosov, V. M., Yuriy, S.I., Alekseyenko, L. M. and etc. *Finances*. K.: Znannya, 2008: 430 [In Ukrainian].

<sup>26</sup> Yuriy, S.I. and T.O. Kizy'ma. "Household finance: theoretical approaches to the interpretation of the essence." *Finance Ukraine* 8 (2008): 3-10. [In Ukrainian].

<sup>27</sup> Gerony'n, N. N. *Household Finance Farms in Development of the Investment Process in Russia*. PhD diss. M., 2004: 55 [In Russian].

<sup>28</sup> Kizy'ma, T. O. *Household finance: contemporary and dominant paradigm of development: Monograph*. K. : Znannya, 2010: 335 [In Ukrainian].

<sup>29</sup> Fedosov, V. M. "Current scientific study of personal finance: [review]." *Finance Ukraine* 11 (2010): 122. [In Ukrainian].

<sup>30</sup> Levchaev, P. A. "Providing Value Growth Funds of Economic Entities in the Innovation Economy: The Theory and Methodology of Research." PhD diss. Abstract in 2007: 15 [In Russian].

budgets, centralized targeted state funds) and financial resources of businesses and households.

The analysis of definitions presented in Table 1 suggests that the macroeconomic approach to interpretation of the nature of financial resources features the following statements:

- the origin of financial resources is related to the results of distribution and redistribution of the gross domestic product and national income;
- gross domestic product is the only source of forming the financial resources;
- financial resources feature the monetary nature of origin.

Analysis of the definition of "financial resources" at the mesolevel allows suggesting that financial resources are defined as the cash or a part thereof, capital, cash income, highly liquid available assets, profits or revenues. Meanwhile, the majority of authors do not specify the amount of financial resources. Besides, the scientists and economists share no single point of view on the existence of forms of financial resources. In some definitions, the stock form is preferred, and in others, the non-stock form is the foundation.

Today there is no single approach to the definition of the "households' financial resources". Thus, O.Y. Yanin and V.N. Fedosov argue that the household financial resources are "an aggregate stock of funds available to the household."

According to S.I. Yuriym V.M. Fedosov, O.R. Romanenko and P.O. Levchayev, the financial resources of the households is money (own and borrowed) being in its possession and intended to meet the financial obligations related and incur various kinds of costs.

In their writings, N.N. Heronin and T.O. Kizyma consider the concept of the "household financial resources" as income and expenses, i.e. material expression of financial relationships of the households with the other economic operators.

Several authors define the household financial resources as a set of cash coming from distribution and redistribution of the gross domestic product, as well as from other sources, and the use of which is aimed at fulfilling the commitments and generation of savings.

### **Formation of Financial Resources of the State**

The development of market economy led to a closer attention of scholar economists to the problem issues of regulating the public finance in general and building a balanced and effective budget policy in particular. In terms of the dynamic changes in the economic environment, the budget is not only a centralized stock of financial

resources, but also an important instrument of influence on the macroeconomic situation and steady economic development of every country in general, as well as sustainable economic growth of its individual business entities.

Public finance function according to the clearly defined conditions and are generated from finance of the companies and organizations of state and communal ownership. This source generates almost 35% of GDP, which is the focus of financial allocations. Given the transition to the market economy, the share of the public sector of economy is significantly reduced each year, but this sector still plays a key role in the formation, distribution, redistribution and use of the public financial resources.

Another important and, probably, crucial source of public finance given the process of transforming the national economy is tax revenues. In turn, the tax revenues are directly dependent on development of national economy and its sectors, development of production, i.e. production of goods (products), works and services. The fact that taxation, i.e. taxes, at the present stage of economic development, are the main source of public finance is confirmed by the fact that the authors of the McMillan Dictionary of Modern Economics present the following definition of fiscal policy: "Fiscal policy usually means the use of taxation and public spending to regulate the aggregate level of economic activity<sup>31</sup>." The financial resources of the state take the form of the budgetary and extrabudgetary funds, intended for a certain purpose<sup>32</sup>." Table. 2 shows the tools and methods of forming the financial resources of the state.

**Table 2 Forming Tools and Methods of Using the Financial Resources of the State<sup>33</sup>**

Scope of public finance	Formation tool	Methods of using
Budget system	Taxes deductions, fees, contributions, charges	Financing, lending, investment
Public trust funds	Contributions, fees	Financing, investment
Public loan	Taxes, loans	Financing, lending, investment

<sup>31</sup> Pirs, Devid V., ed. Macmillan Dictionary of Modern Economics: Translation from English. 4th ed. 2000: 41 [In Ukrainian].

<sup>32</sup> Bocharov, V.V., and V.E. Leont'ev. *Corporate Finance*. SPb.: Peter, 2004: 12 [In Russian].

<sup>33</sup> Sy'dorchuk, A. A. "The essence of the financial resources of state social insurance." *Bulletin of the Odessa National University* 19, no. 3/4 (2014): 93-98. [In Ukrainian].



Consequently, the state budget is the main national fund of the centralized cash resources expressing the economic relations of the state in the course of distribution and redistribution of the gross domestic product and national income, and the main sources of the state budget revenues is a finance of the companies and organizations of state and communal ownership, as well as tax revenues. Let's consider the basic macroeconomic indicators characterizing the status of financial resources of Ukraine for 2005-2015 (Table 3).

Thus, the statistics of Table 3 indicates that during the studied period the nominal GDP in hryvnias tended to the annual growth and in 2015, compared, for example, to 2010, increased by UAH 896,889 mln, which amounted to 82.9%. However, in US dollar terms, this figure is characterized by significant fluctuations due to fluctuations in the relevant official exchange rate of NBU. Its highest value was recorded in 2013 and amounted to USD 183,310 mln, and the lowest in 2015, namely the GDP accounted for USD 98,851 mln, which is USD 32,954 or 25.0% less than in 2014. However, its hryvnia dimension, in contrast to the dollar one, reflects the positive values in 2015 and amounts to UAH 1,979,458 mln, which is UAH 412,730 mln or 26.3% more than in 2014.

Such a positive change of GDP in hryvnia terms at a stable price level could indicate the economic growth of Ukraine. However, in the conditions prevailing in the national economy in recent years (long-lasting galloping increase in the general level of prices for goods and services with reduced production volumes, resulting in forcing all actors to pay the so-called "inflation tax", a surcharge introduced without enactment of a law due to the continuous growth of average prices, redistributing a part of their income to the state), such a nominal GDP growth is the result of an artificial increase in this indicator not supported by the actual volume of produced (sold) goods or provided services. At the same time, the Government gets some benefit from the effects of this "inflation tax", as the revenues increase due to the growth in the nominal values for goods (tax bases), while the living standard falls down. The most vulnerable are the groups (e.g. employees of budgetary institutions, students, pensioners) who receive a fixed income, i.e. wages or social benefits and other assistance from the state. Also, there is a deterioration of the macroeconomic situation in the country, namely the decline in domestic industry and retail volumes, reduced purchasing power of the population and its business activity (through an investment component) etc.

*Table 3 Major Macroeconomic Indicators Characterizing the Condition of Financial Resources of Ukraine in 2005-2015*<sup>34</sup>

Indices	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2015 to 2014	
												+/- Million.	+/- %
Gross domestic product (UAH mln)	441 452	544 153	720 731	948 056	913 345	1 082 569	1 316 600	1 408 889	1 454 931	1 566 728	1 979 458	412 730	+ 26.3%
Gross domestic product (USD mln)	861 42	1 077 53	1 427 19	1 799 92	1 172 28	1 364 19	1 631 60	1 757 81	1 833 10	1 318 05	988 51	-32 954	-25.0%
Gross domestic product (%)	3.1	7.6	8.2	2.2	-15.1	4.1	5.5	0.2	0.0	-6.8	-9.9	-	-
Unemployment rate %	7.8	7.4	6.9	6.9	9.6	8.8	8.6	8.1	7.7	9.7	9.5	-	-0.2
<b>Consolidated budget of Ukraine (UAH mln)</b>													
Revenues	1 341 83.2	1 718 11.5	2 199 39.1	2 978 44.6	2 729 67.0	3 143 91.0	3 985 54.0	4 455 25.0	4 427 89.0	4 560 67.0	6 520 31.	1 959 64	42.97
including the tax revenues	980 65.2	1 257 43.1	1 612 64.2	2 271 64.8	2 080 73.2	2 344 47.7	3 346 92	3 605 67	3 539 68	3 675 12	5 076 36	1 401 24	38.13
The share of revenues in GDP structure, %	30.40	31.58	30.52	31.42	29.89	29.04	30.27	31.62	30.43	29.11	32.94	-	3.83
The share of tax revenues in consolidated budget revenues, %	73.08	73.19	73.32	76.27	76.23	74.57	83.98	80.93	79.94	80.58	77.86	-	-2.72
<b>State Budget of Ukraine (UAH mln) (without interbudget transfers)</b>													
Revenues	103 867.0	131 946.0	161 587.5	224 020.9	201 931.3	233 990.5	311 898.2	344 711.4	337 617.6	354 966.2	531 551.0	1 765 84.8	49.75
including the tax revenues	74 476.4	94 811.5	1 166 70.8	1 678 83.4	1 489 15.6	1 668 72.2	2 616 05	2 747 15.2	2 627 77.1	2 801 78.3	4 094 18	1 292 39.7	46.1
The share of revenues in GDP structure, %	23.9	24.5	23.0	24.4	23.0	22.2	23.9	24.6	23.3	22.8	27.0	-	4.2
The share of tax revenues in consolidated budget revenues, %	70.7	71.9	72.2	74.9	73.8	71.3	83.9	79.7	77.8	78.9	77.0	-	-1.9

<sup>34</sup> "The Analytical Report to the Annual Message of the President of Ukraine to the Verkhovna Rada of Ukraine "On the Internal and External Situation of Ukraine in 2015." 2015. [In Ukrainian].

All these phenomena have a negative impact on economic growth, social and political environment in the country, disrupt its foreign economic relations, introduce a significant speculative element therein, hinder the inflow of foreign capital, deteriorate the country payment balance, its foreign exchange position, undermine its position in the global market, resulting in decreased credibility of the Government, planned programs and reforms.

The nominal GDP of Ukraine in US dollars in 2015 dropped to the level of 2004-2005, and in 2016, it is unlikely to exceed the GDP of Ukraine in 2005. When assessing these figures, we should take into account not only the economic crisis of 2014-2015, but also the fact that Ukraine lost a part of GDP as a result of lost control over Crimea and a part of Donetsk and Luhansk regions. Consequently, by the size of nominal GDP in US dollars, Ukraine dropped by about 10 years.

According to the official data of the Ministry of Finance of Ukraine, in 2009, the value of the nominal GDP in percentage has reached its minimum for the period of 2000-2015. 2010-2011 GDP shows a positive trend. In 2012-2013, the GDP growth was zero. An advanced military conflict in the east, where the key industries are located, which are now beyond Ukraine's control, led to the fall of GDP by the end of 2014 by 6.8% compared to the previous year after two years of zero growth, and in 2015 to -9.9% as compared to 2014.

The International Monetary Fund downgraded the forecast of decline in Ukraine's GDP from 2% to 1.5% in 2016. According to IMF projections, in 2017, Ukraine's GDP growth will amount to 2.5%, and in 2018 — 4%.<sup>35</sup> Moreover, the receipt of reliable statistical information about the real volume of Ukraine's GDP is influenced by the other factors, including the volume of the shadow turnover because of "tax pits"<sup>36</sup> and shadow economy in general.

A negative trend of rising unemployment should be noted. The unemployment rate in Ukraine calculated according to the methodology of the International Labour Organization (ILO), following 2014-2015, was 9.7 — 9.5% of the economically active population (Table 3).

The development of crisis processes, reduced economic activity and crisis transformation from financial to financial and economic is clearly observed in the course of analysis of the dynamics and structure of the Consolidated and State Budgets of Ukraine for 2005-2015. The calculations in Table 3 show that the country's economy features a

<sup>35</sup> "The IMF Revised the Growth Forecast for Ukraine's GDP for 2016." Delo.ua. April 12, 2016. <http://delo.ua/ukraine/mvf-peresmotrel-prognoz-rosta-vvp-ukrainy-na-2016-god-315275/> © delo.ua. [In Russian].

<sup>36</sup> Ivanov, O. "Tax Pit": Eliminate or Lead." *National Institute of Strategic Research*. <http://voxukraine.org/2015/06/11/podatkoviyamy/>. [In Ukrainian].

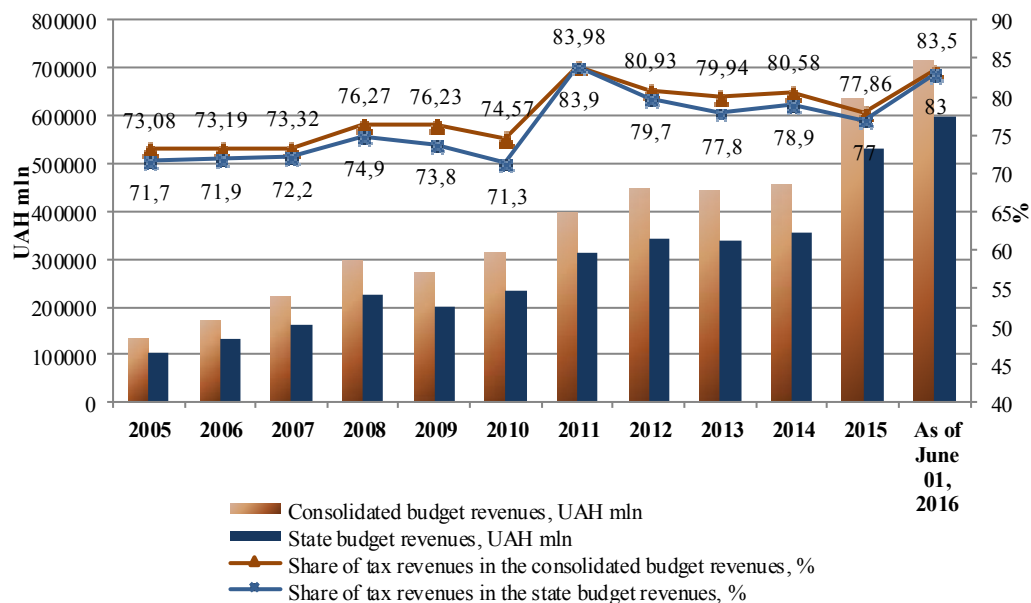
tendency to decline in GDP distributed through the financial system. The specific share of income:

- of Ukraine's consolidated budget in GDP in 2015 compared to 2005 decreased by 1.29% (from 30.40% to 29.11%). But in 2015, compared to 2014, this indicator increased by 3.83% (from 29.11% to 32.94%);
- of the state budget of Ukraine in GDP in 2015 compared to 2005 decreased by 1.2% (from 23.9% to 22.8%). However, in 2015, compared to the previous period, there is rapid growth of this indicator by 1.9% (from 22.8% to 27.0%).

Such variations in the ratio of these indicators are extremely destructive for the development of macroeconomic processes, which leads to destruction of financial proportions formed between business entities in the previous period and are the factors of financial instability.

The change in revenues mobilized to the consolidated and state budgets for the studied years are mostly positive, with the exception of 2009 and 2013. This is due to the global crisis, accelerated inflation during these years and uneven development of the country regions. Meanwhile, during 2014, albeit slowly, but the processes of adaptation to the new conditions, and partial replacement of the lost economic and financial sources was taking place, thus avoiding an uncontrolled collapse of the economy. In 2015, compared to 2014, the revenues of the consolidated and state budgets of Ukraine continued to grow, namely by UAH 195,964 mln or 42.97%; UAH 176,584.8 mln or 49.75%, respectively.

The accumulation of funds in the state budget is due to the tax and non-tax revenues. The higher is the concentrated amount of these revenues the more difficult it becomes to manage these funds. The changes in income of the budget system of Ukraine for 2005-2015 show a significant dependence on the tax revenues, the share of which on the average in income of the consolidated and state budgets is 77.27% and 74.55%, respectively. In the structure of revenues of the state budget of Ukraine, the share of tax revenues hovered around 63-76% in 2000-2010 and subsequently increased sharply (up to 81-83.5%) as a result of changes in taxation related to adoption of the Tax Code Ukraine (e.g., increase in excise tax, improved administration etc.) and for the purely statistical reasons, when a part of tax payments under the Tax Code (primarily rental and target premium to tariffs until 2011) were accounted for as tax payments (Fig. 2).



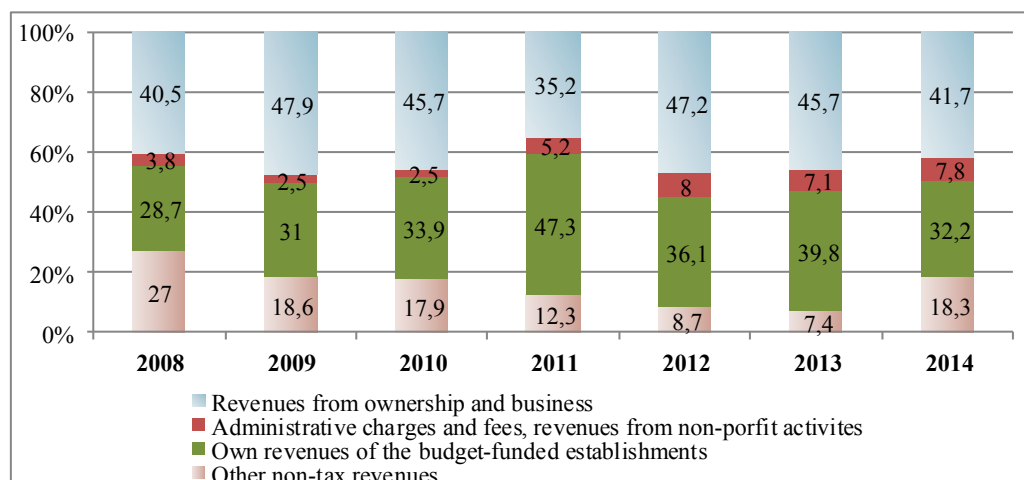
**Fig.2.** The Dynamics Ukraine Revenue Share Which is Formed Through Tax Revenues<sup>37</sup>

The key tax revenues are revenues from the value added tax (VAT), personal income tax (PIT) and corporate income tax (CIT), the amount of which on the average for 2005-2015 is 76.77%.

About one third of the budget revenues is generated by *non-tax revenues*, the main difference of which from the tax revenues is the lack of the majority of principles and approaches, including the equivalence, stability, commitment, comprehensive nature etc. in the mechanisms of their mobilization. However, the non-tax payments have certain features, in particular, the target purpose, have an optional nature, and they are partly credited to the budget revenue of those levels, the public bodies of which collect the same. The structure of non-tax revenues is shown in Fig. 3.

<sup>37</sup> Built according to:

1. The Ministry of Finance of Ukraine. <http://www.minfin.gov.ua>. [In Ukrainian].
2. Statistical Yearbook of the Ministry of Finance of Ukraine: Budget 2014 Ukraine. Kyiv, 2015. <http://www.minfin.gov.ua>. [In Ukrainian].
3. "Budget Revenues of Ukraine." Price State. 2016. <http://cost.ua/budget/revenue/>. [In Ukrainian].
4. "The Ministry of Finance Ukraine to Implement the Budgets of Ukraine for 2010 — 2015." The Ministry of Finance of Ukraine. <http://www.treasury.gov.ua/main/uk/publish/category/23596>.  
Information on execution of local budgets income as of 01.01.2016. State Treasury Service of Ukraine. [In Ukrainian].



**Fig. 3.** The Structure of Non-Tax Revenues of the State Budget for 2008-2014<sup>38</sup>

### The Priority Areas of Efficient Use of the National Financial Resources

The use of the national financial resources involves the formation of spending for basic functions and tasks performed by the state. The budget spending is reflected by expenditures. The composition, structure and change in the budget expenditures reflect the national priorities of socio-economic development. The most important parameters here are the mechanism of fulfilling the budget commitments and public debt management.

Let's consider the changes in the Consolidated and State Budget of Ukraine by functional classification over the period 2005-2015, the results of which indicate a deteriorating position of the state in the process of restoring the balanced budget system and an increase in the debt burden (Table 4).

Overall, the actual expenditures of the consolidated and state budget according to the results of 2015 vs 2014 increased by UAH 156,745 mln, or 29.96%, and UAH 146,693.2 mln or 34.10%, respectively.

The largest increase in expenditures in nominal terms in 2015 occurred in the following areas:

— state administration — UAH 40.7 bln (from UAH 76.9 to 117.6 bln) or 52.9%, which include the debt service spending;

<sup>38</sup> Statistical Yearbook of the Ministry of Finance of Ukraine: Budget 2014 Ukraine. Kyiv, 2015. <http://www.minfin.gov.ua>. [In Ukrainian].

## APPLICATION AREAS

Table 4 Change in Spending of the Budgets of Ukraine by Functional Classification for 2005 - 2015 (UAH million)<sup>1</sup>

Indices	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Consolidated budget of Ukraine (UAH mln)										
State administration	15,480.9	19,891.9	24,270.9	30,829.2	33,156.0	44,902.5	49,874.7	54,590.2	61,702.2	76,845.9	117,643.0
Defence	6,041.0	6,400.7	9,416.5	11,733.0	9,663.3	11,347.1	13,242.2	14,486.9	14,844.4	27,365.5	52,016.0
Public order, security and judiciary power	10,226.8	12,718.8	18,445.7	27,080.9	24,346.1	28,825.6	32,637.7	36,681.2	39,409.3	44,864.6	54,963.0
Economic activity	19,115.1	27,341.1	40,523.4	51,322.4	39,753.0	43,832.4	57,124.1	62,377.4	50,757.8	43,637.6	56,617.0
Environmental protection	1,252.5	1,636.6	2,241.3	2,764.7	2,538.8	2,872.4	3,890.7	5,297.9	5,594.2	3,481.7	5,530.0
Utilities	3,914.2	8,024.1	5,900.3	8,968.5	7,498.1	5,431.3	8,679.3	20,059.6	7,704.7	17,808.5	15,700.0
Healthcare	15,476.5	19,737.7	26,717.6	33,559.9	36,564.9	44,745.4	48,961.6	58,453.9	61,568.8	57,150.1	71,001.0
Spiritual and physical development	3,449.8	4,328.4	5,687.8	7,916.1	8,330.2	11,525.4	10,754.9	13,639.6	13,661.2	13,857.7	16,228.0
Education	26,801.8	33,785.0	44,333.6	60,959.4	66,773.6	79,826.0	86,253.6	101,560.9	105,538.7	100,109.5	114,193.0
Social protection and social security	39,940.2	41,419.9	48,517.3	74,069.7	78,775.4	104,534.9	105,434.8	125,306.9	145,062.6	138,004.7	176,340.0
<b>TOTAL</b>	<b>141,698.8</b>	<b>175,284.4</b>	<b>226,035.7</b>	<b>309,216.2</b>	<b>307,399.4</b>	<b>377,873</b>	<b>416,854</b>	<b>492,455</b>	<b>508,844</b>	<b>523,126</b>	<b>679,871*</b>
The share of spending in the GDP structure, %	32.1	32.2	31.4	32.6	33.7	34.9	31.7	35.0	34.8	33.4	34.3
Deficit	-7806.3	-3700	-7700	-14100	-37300	-64836	-23058	-50786	-63590	-72030	-30898
Deficit vs. GDP ratio, %	1.77	0.68	1.07	1.49	4.08	5.99	1.75	3.60	4.37	4.60	1.56
	State budget of Ukraine (UAH mln)										
State administration	11,980.5	14,165.2	16,906.6	21,769.5	24,850.4	34,694.3	39,996.6	44,010.7	50,101.1	65,825.8	103,116.0
Defence	6,041.0	6,400.7	9,416.5	11,733.0	9,663.3	11,347.1	13,241.1	14,485.7	14,843.0	27,363.4	52,005.0
Public order, security and judiciary power	10,142.2	12,583.2	18,315.7	24,871.1	24,159.2	28,570.7	32,415.3	36,469.8	39,190.9	44,619.0	54,643.0
Economic activity	14,041.3	20,425.7	29,748.8	38,693.0	33,294.3	36,030.0	44,771.6	49,396.0	41,299.2	34,410.7	37,136.0
Environmental protection	981.1	1,306.9	1,809.1	2,230.2	1,824.3	2,292.7	3,008.4	4,135.4	4,595.0	2,597.0	4,053.0
Utilities	110.0	180.7	723.8	444.0	270.6	844.4	324.2	379.6	96.9	111.5	21.0
Healthcare	3,508.1	4,099.7	6,321.0	7,365.5	7,535.0	8,759.0	10,223.9	11,588.5	12,879.3	10,580.8	11,450.0
Spiritual and physical development	1,273.7	1,389.6	1,987.7	2,917.6	3,216.7	5,165.5	3,830.4	5,488.5	5,111.9	4,872.4	6,619.0
Education	9,932.8	12,122.1	15,149.7	21,554.3	23,925.7	28,807.5	27,232.7	30,243.2	30,943.1	28,677.9	30,186.0
Social protection and social security	31,604.3	30,284.0	29,220.3	50,798.3	51,517.6	69,311.3	63,540.2	75,254.4	88,547.3	80,558.2	103,701.0
<b>SUBTOTAL</b>	<b>89,614.9</b>	<b>102,957.7</b>	<b>129,599.3</b>	<b>182,376.5</b>	<b>180,257.1</b>	<b>225,822.5</b>	<b>238,584.4</b>	<b>271,221.9</b>	<b>287,607.7</b>	<b>299,616.8</b>	<b>402,931.0</b>
Interbudget transfers	23,361.1	34,150.3	44,655.0	59,113.6	62,180.1	77,766.2	94,875.0	124,459.6	115,848.3	130,600.9	173,980.0
<b>TOTAL</b>	<b>112,975.9</b>	<b>137,108.1</b>	<b>174,254.3</b>	<b>241,454.5</b>	<b>242,437.2</b>	<b>303,588.7</b>	<b>333,459.5</b>	<b>395,681.5</b>	<b>403,456.1</b>	<b>430,217.8</b>	<b>576,911.0*</b>
The share of spending in GDP structure, %	25.60	25.2	24.18	25.47	26.54	28.04	25.33	28.03	27.73	27.45	29.14
Deficit	-7945.7	-3776.6	-9842.9	-12500.7	-35517.2	-64265.5	-23557.6	-53445.2	-64707.6	-78070.5	-45150.5
Deficit vs. GDP ratio, %	1.80	0.70	1.37	1.32	3.89	5.94	1.79	3.80	4.45	4.98	2.29
Public debt. % of GDP	17.7	14.8	12.3	20.0	34.7	39.9	35.9	36.6	40.1	70.2	80.9

<sup>1</sup> "Budget Revenues of Ukraine." Price State. 2016. <http://cost.ua/budget/revenue/>. [In Ukrainian].

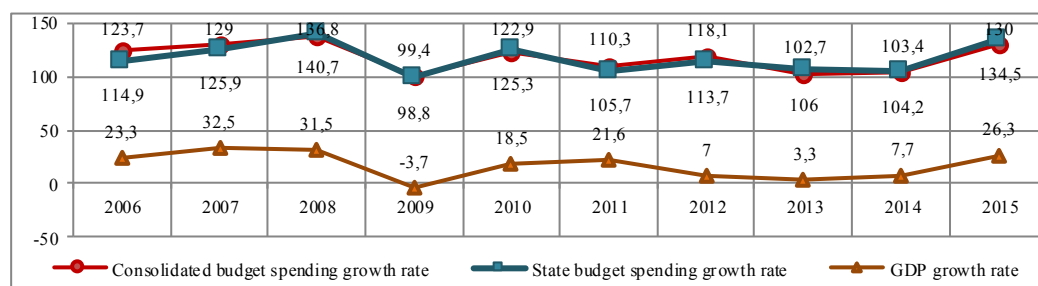
\* Included fiscal data reporting for the first quarter of 2014 in the Crimea and Sevastopol.

— defence — UAH 52.0 bln were allocated against UAH 27.4 bln and UAH 14.8 bln in 2014 and 2013, respectively. This amount does not include additional transfers for ATO which the Parliament allocates by separate decisions;

— public order, security and judicial authorities — UAH 10.1 bln (from UAH 44.9 bln to UAH 55.0 bln), or 22.5%.

During adoption of the budget 2016, spending for defence and public order have been increased. As a result, the defence spending increased by UAH 9.8 bln to UAH 59.9 bln. The public order spending increased by 8.4 bln to 58.6 bln. This is 17.5% of the state budget. However, the income growth pace was less than the pace of increase in expenditures (for structural changes in the national economy, defence, maintenance of power structures, financing the public debt etc.), indicating a continuing high level of public commitments to provide public goods and services<sup>39</sup>.

A growing share of the consolidated budget deficit in GDP from 1.77% in 2005 to 4.60% in 2014 demonstrates the negative phenomena in the economy of Ukraine. However, in 2015 this indicator dropped sharply to 1.5%. The significance of financial instruments of state regulation of the economy is growing. The growth rate of the consolidated budget expenditures in 2015 increased by 26.6 p.p. and amounted to 130.0%. However, compared to the last year, they exceeded the GDP growth rate, which decreased in 2014 by 0.7 p.p. (Fig. 4).



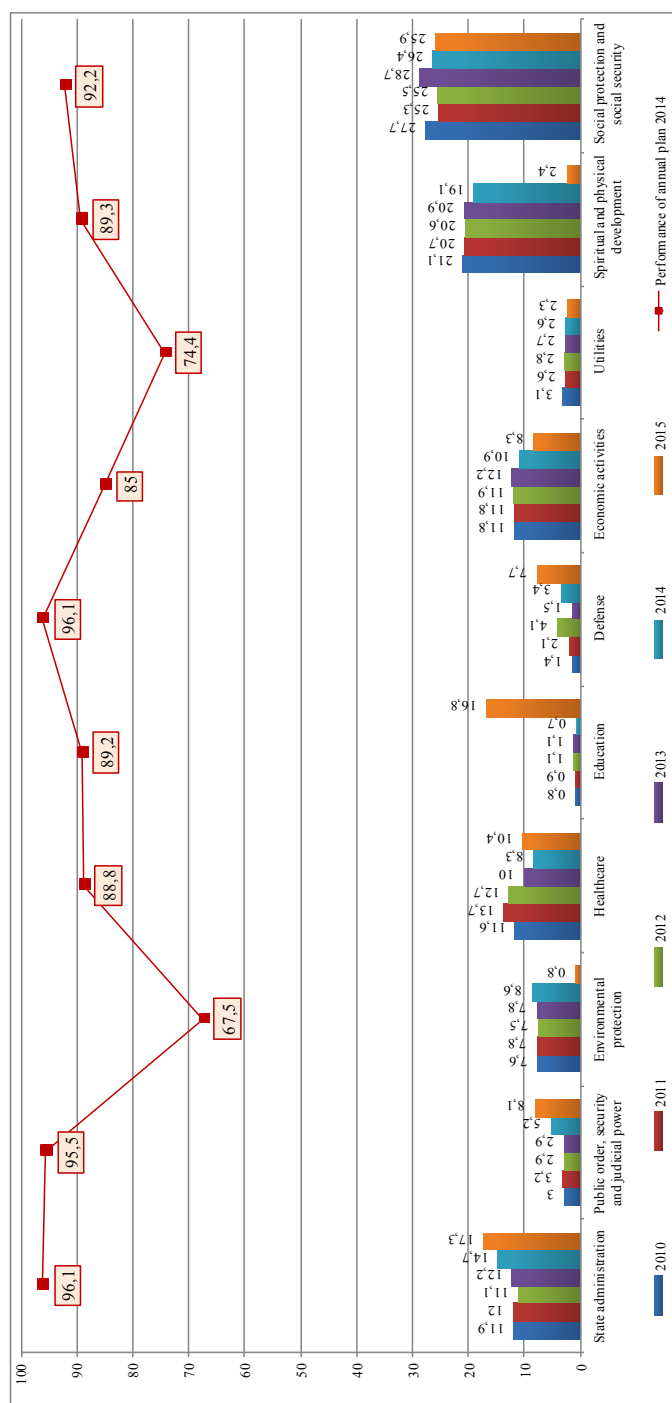
**Fig. 4.** Change of the Growth Rate of Expenditures of the Consolidated and State Budgets and Growth Rate of GDP in 2006-2015, %<sup>40</sup>

The highest rates of annual plan performance show spending for the state administration and defence spending (96.1% each), as well as spending for public order, security and judicial power (95.5%) (Fig. 5).

<sup>39</sup> Assessment of imbalances in the public sector and ways to overcome them. Policy Brief. *National Institute Strategic Research at the President of Ukraine*. <http://www.niss.gov.ua/articles/1800>. [In Ukrainian].

<sup>40</sup> Built according to: "The Analytical Report to the Annual Message of the President of Ukraine to the Verkhovna Rada of Ukraine "On the Internal and External Situation of Ukraine in 2015." 2015. [In Ukrainian].





**Fig. 5.** Change in the Structure of Expenditures by Function Classification for 2010-2015 and the Level of the State Budget Performance in 2014 (%)<sup>41</sup>

<sup>41</sup> Built according to: The Ministry of Finance of Ukraine. <http://www.minfin.gov.ua>. [In Ukrainian].

Low levels of performance, like in the previous year, are observed by spending for environmental protection (performance level — 67.5%), and utilities (74.4%).

The structure of the budget expenditures by functional classification characterizes the overall objectives of the public government. In Ukraine, like in most countries, the priority is spending for social protection and social security, education, economic activities, healthcare and state administration functions. To fund the same, the state allocates more than 80% of the consolidated budget of Ukraine. The spending for environmental protection, utilities, as well as spiritual and physical development accounted for the smallest share in the total expenditures of the consolidated budget of Ukraine.

In 2015, the cost of the defence complex increased by 90%, or 7.7% of total expenditures (for comparison, in 2015 Japan allocated 5.2% of its budget for defence, and the US — 13%)<sup>42</sup>. Besides the spending for law enforcement (police, prosecutor's office, courts) increased: in 2015, in the structure of spending, the account for 8.1% versus 5.2 p.p. in 2014. Also, the spending for the state apparatus increase: in 2015, they make up 17.3% in the structure of expenditures against 14.7 p. p. in 2014.

The State Budget 2015 provided for funding of the Ministry of Education in the amount of UAH 49.3 bln, and the Ministry of Health of Ukraine (all-national spending) — UAH 43.6 bln, which even in aggregate is less than expenditures for servicing of the public debt, i.e. 93 bln. This policy of permanent increase in the gross debt of the state without structural changes in the economy leads to a disproportionate increase in the debt burden on future generations<sup>43</sup>.

One of conditions of the prudent fiscal policy is the principle of balanced spending for social stability with expenditures for development of the promising sectors of economy. In 2015, this principle was ignored effectively because the government chose the policy of saving and "tightening belts", arguing it with military operations in the eastern Ukraine and the crimes of the previous government. In particular, the share of funding for social security and provision decreased by 4% to 15%, for education — by 2% to 7%, and for health — by 1% to 3%. The increase in intergovernmental transfers (increase by 2% to 32%) may offset this negative trend, and the growth of the local budgets, since they also include the spending for education and healthcare.

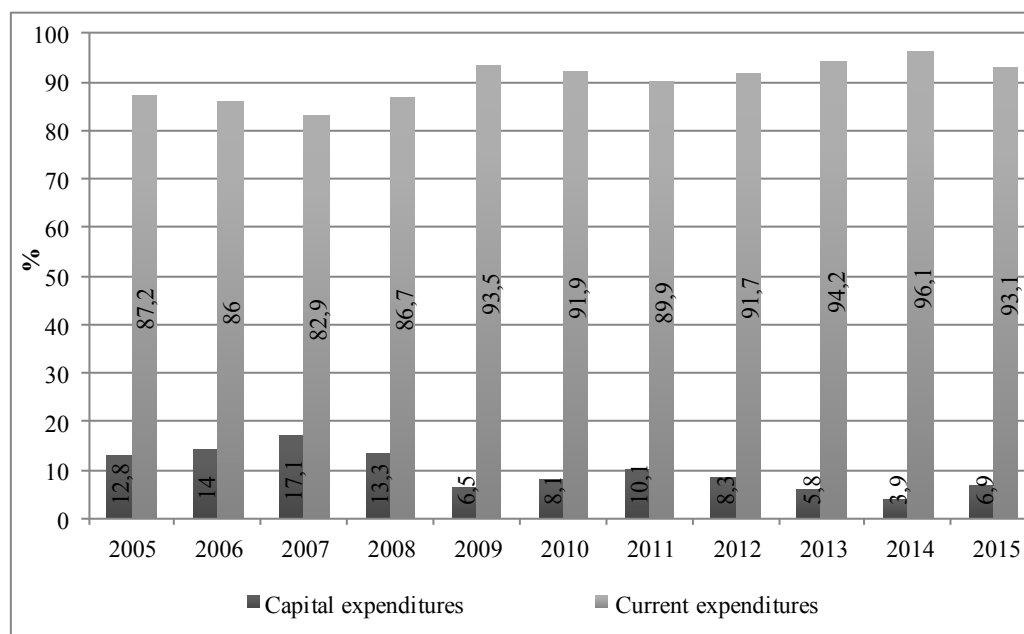
As illustrated by Fig. 6, the expenditures in the consolidated budget of Ukraine in terms of economic classification is dominated by current

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<sup>42</sup> US Govspending, MinFin of Japan 2015. <http://www.tradingeconomics.com/japan/government-spending>. [In Ukrainian].

<sup>43</sup> Odosij, O. "Relationship fiscal and debt policy of Ukraine." *Common: magazine of social criticism*, 2015. <http://commons.com.ua/byudzheta-borgova-politika-ukrayiny/>. [In Ukrainian]

expenditures. Meanwhile, the weight of the capital budget spending is decreased. The growth by 3% occurred in 2015. While in 2006 14% of all expenditures were used for capital purposes, in 2012 – only 8.27%, in 2013 – only 5.8%, in 2014 – 3.9%, and in 2015 – 6.9%.

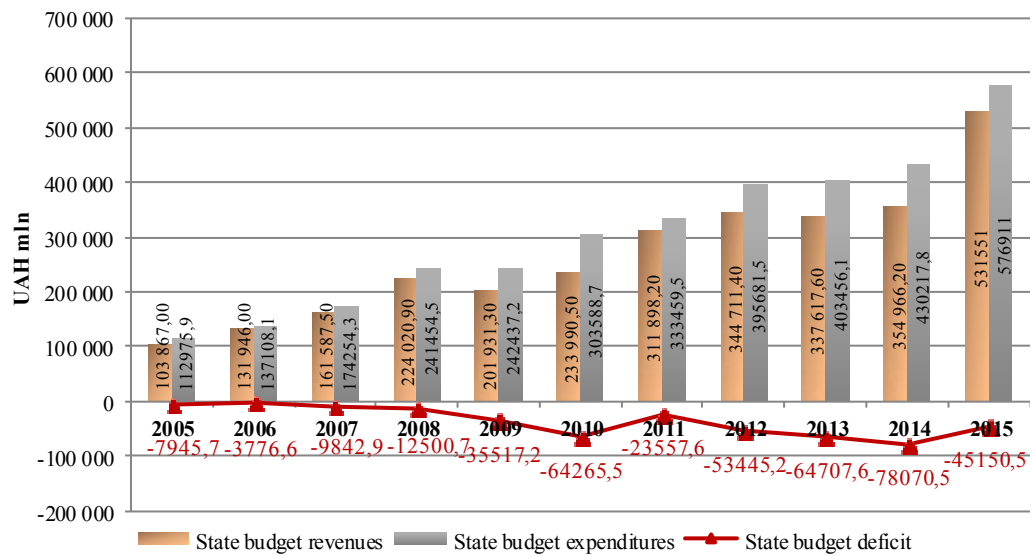


**Fig. 6.** Structure of Expenditures of the Consolidated Budget of Ukraine in Terms of Economic Classification, % of Total Expenditures<sup>44</sup>

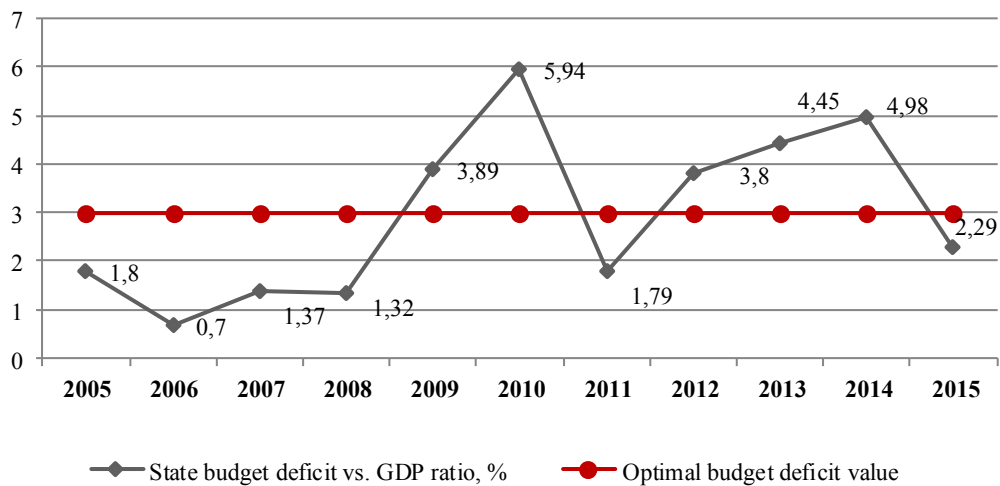
When analysing the revenue and expenditures of the State Budget of Ukraine, it was found that during the analyzed period they are growing steadily, but since 2008 there are fluctuations due to the global crisis, rising inflation and political instability over these years (Fig. 7).

The level of the budget deficit belongs to the most important indicators of financial security of any state. Having analyzed the budget deficit of Ukraine, it can be concluded that during the analyzed period it features an unstable dynamics, but by 2009 it was lower than the optimal value, indicating the steady condition of the country's economy and its ability to use the resources efficiently (Fig. 8).

<sup>44</sup> Built according to: The Ministry of Finance of Ukraine. <http://www.minfin.gov.ua>. [In Ukrainian].



**Fig. 7.** Main Indicators of Performance of the State Budget of Ukraine for 2005-2015<sup>45</sup>



**Fig. 8.** Changes in the State Budget Deficit vs. GDP of Ukraine and Its Optimum Value According to the Maastricht Treaty<sup>46</sup>

<sup>45</sup> Built according to: The Ministry of Finance of Ukraine. <http://www.minfin.gov.ua>. [In Ukrainian].

<sup>46</sup> Ibid

In recent years, Ukraine continuously exceeded the limits of the budget deficit under the Maastricht Treaty, testifying to an ineffective formation of the state budget and imperfect fiscal policy, which resulted in shift of a quite a large part of the real economy into the shade, so the state budget under-receives funds and, consequently, the public debt increases.

The greatest budget deficit value was observed in 2010 (5.94%) and 2014 (4.98%), indicating an ineffective policy of managing the income and expenditures, which in the future may lead to a deterioration of the general economic situation in the country and exercise a significant impact on the real economy and social sphere.

The broad range of problems faced by the deficit of the State Budget of Ukraine includes the structural imbalance in the economy and ineffective implementation of structural reforms; inefficient mechanism of taxation of business entities; maintenance of a considerable number of loss-making public enterprises receiving grants; structure of budget expenditures inadequate to the existing financial possibilities of the state; a significant amount of shadow economic activities; non-target and inefficient use of public funds; loss of production, waste, theft, misappropriation etc., which has not become the subject of effective state financial control; inefficiency of financial and credit relations<sup>47</sup>.

In terms of the permanent budget imbalance, the Government must continuously seek the sources of funding the deficit, the main of which is external borrowing and printing money. A significant devaluation of hryvnia in 2014-2015, determined by an aggregate effect of the factors such as the outflow of deposits in the banking system, reduced international reserves of the country to the critical level, and active speculation in the financial markets led to a significant increase in the public debt (from UAH 480 bln as of December 31, 2013 to USD 1,185 bln as of April 30, 2015). This, consequently, led to an increase in spending from the budget for servicing of such debt<sup>48</sup>.

However, in 2015, the exceeding over the budget revenues was the result of reduction of the budget deficit to UAH 41,132 mln or 57.10% in the consolidated budget of Ukraine and by UAH 32,920 mln or 42.17% in the state budget of Ukraine (Table 4).

However, balancing of the nominal parameters of the state budget was primarily due to the increase in inflation, which may help increase the total tax revenues only in the short term, since payment of additional tax payments ("inflation tax"), usually leads not only to a simultaneous significant reduction in income and well-being of

<sup>47</sup> Svereda, N.I. *The main problems areas and overcome the budget deficit in Ukraine* <http://www.rusnauka.com>. [In Ukrainian].

<sup>48</sup> The Ministry of Finance of Ukraine. <http://www.minfin.gov.ua>. [In Ukrainian].

taxpayers, and hence the level of demand, but also to the further depletion of the sources of revenue. Therefore, a sharp jump of absolute values of both budget and tax revenues in 2015 cannot be regarded as a positive fact. Most likely, summing up the results of this year by implementation of targets of the budget system of Ukraine will be disappointing<sup>49</sup>.

Also, we should not forget that official statistics do not account for about UAH 300 to 800 bln belonging to the shadow economy. This amount is determined by comparison of spending money by the population with a total volume of goods and services within the country and, therefore, now it is about 50% of GDP. These are the amounts from which no taxes and fees are paid, which, certainly, affects the amount of revenue of the state budget<sup>50</sup>.

There is a direct link between the budget deficit and public debt. On the one hand, the public debt is the difference between the accumulated amount of all budget surplus and the amount of the negative balance (deficit), so the budget deficit creates a public debt. On the other hand, the growth of debt requires additional budget expenditures for its servicing, which leads to the growth of the budget deficit. The above-mentioned forms of budgetary mechanisms are closely interrelated. On the one hand, the budget expenditures are limited by the amount of collected revenues, which in turn depend on the level of economic development and incomes. On the other hand, they influence the increase in opportunities to create a national product, enhance the economy efficiency and acceleration of industrial progress, which ultimately also affects the volume of revenues. It is believed that reproduction of the macroeconomic equilibrium involves achievement of compliance with the volume of funds withdrawn from circulation vs. the volume equal to returned funds<sup>51</sup>.

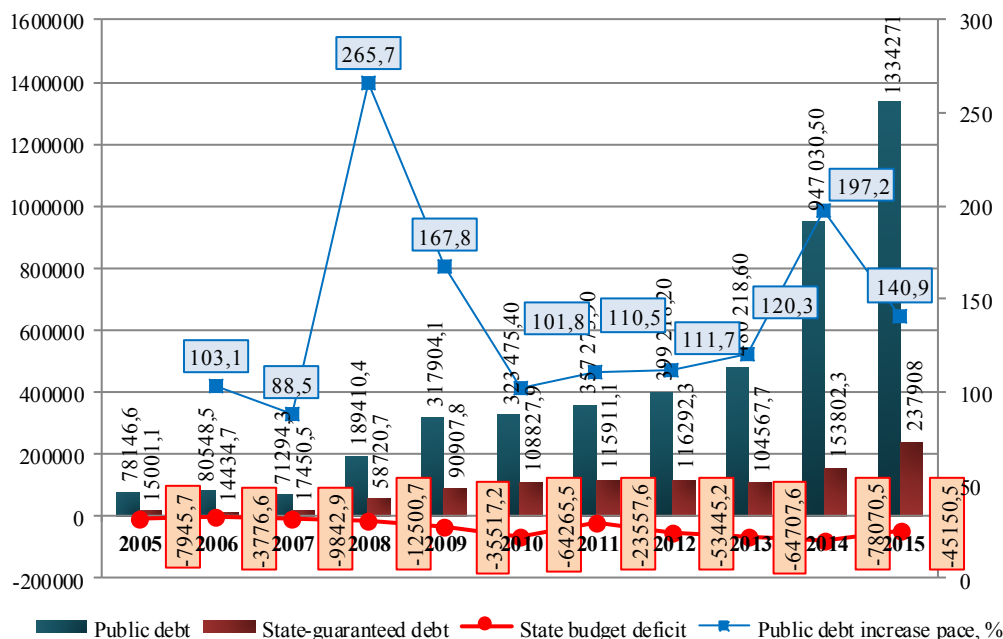
Analysing the data on the public debt in recent years, we can conclude that the public debt of Ukraine is growing, and acquired an alarming pace (Fig. 9). This adversely affects the economy of Ukraine and has certain consequences. However, given the latest official data and forecasts, the pace of the public debt growth (from 197.2% in 2014 to 140.9% in 2015) is reduced gradually, which allows hoping for improvement of the economy and its further reduction.

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<sup>49</sup> Dulik, T. O., and T. Yu. Aleksandryuk. "Vectors of Ukraine's modern fiscal policies." *International scientific journal* 2 (2016): 107-115. <http://www.inter-nauka.com/issues/2016/2/796>. [In Ukrainian]

<sup>50</sup> Xoloshy'n, M. *Ukraine's GDP in 2015 will drop to 35%*. <http://blog.ubr.ua/finansy/vvp-ukrainiu-2015-roci-vpade-do-35-12035>. [In Ukrainian].

<sup>51</sup> Fedosov, V. M. and S.I. Yuriy. *Finance Theory: Textbook*. Kiev: CzUL, 2010. [In Russian].



**Fig. 9.** Changes in the Public and State-Guaranteed Debt of Ukraine for 2010-2015<sup>52</sup>

Budget policy is a part of economic policy of the state and financial policy. The basis of the budget policy is development of directions of the budget use in accordance with the principles of social and economic development of society. Practical implementation of the budget policy implies a set of strategic and tactical measures implemented by the state through the budget system. The Cabinet of Ministers of Ukraine proposed the possible ways of implementing the fiscal policy in 2016:

- maintenance of the maximum volume of the state budget deficit within 2.5% of the gross domestic product;
- preservation of the GDP redistribution through the consolidated budget at the level no higher than the one included in the State Budget of Ukraine for 2015;
- financing the deficit of the state budget mainly through domestic borrowing;
- creation of a system of risk management of the public debt to prevent the peak load on the state budget, and development of the

<sup>52</sup> The Ministry of Finance of Ukraine. <http://www.minfin.gov.ua>. [In Ukrainian].

secondary governmental bond market due to active operations with public debt using the free funds on the single treasury account;

— implementation of measures aimed at achievement of the marginal ratio of the total public debt and state-guaranteed debt vs. the gross domestic product at 60% etc<sup>53</sup>.

## Conclusions

The analysis conducted on the basis of a large number of theoretical and analytical studies of domestic and foreign scholars on the processes of formation and priority areas of using the financial resources of the national economy allows us to formulate the following conclusions.

1. So far, the financial science does not have a universally accepted definition of the nature of financial resources. There is no such definition in the laws of Ukraine either. According to one common approach, the financial resources in the state are accumulated at the micro, meso and macrolevels of the economic system. The subjects of financial resources are the households (individuals); enterprises, associations, companies (legal entities); state in the form of budgets of different levels and extra-budgetary funds, and its objects are financial relations, resulting in generation of the targeted cash funds.

2. The practical significance of financial resources can be revealed through the disclosure of sources of their formation and areas of use. The state budget is the main national fund of the centralized cash resources, which expresses the economic relations of the state in the course of distribution and redistribution of the gross domestic product and national income, and the main sources of the state budget revenues are the finance of the companies and organizations of the state and communal ownership and tax revenues. The main tax revenues are the revenues from the value added tax (VAT), personal income tax (PIT) and corporate income tax (CIT), the amount of which on the average for 2005-2015 is 76.77%.

3. The use of the national financial resources implies the formation of spending for the basic functions and tasks performed by the state. The composition, structure and changes in the budget expenditures reflect the national priorities of socio-economic development through the mechanism of fulfilling the budget commitments and debt management.

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<sup>53</sup> The project is Cabinet of Ministers of Ukraine "On approval of the project budget policy guidelines for 2016". <http://zakon.rada.gov.ua>. [In Ukrainian].



Overall, the actual expenditures of the consolidated and state budget according to the results of 2015 vs. 2014 increased by 29.96% and 34.10% respectively. The largest increase in expenditures in nominal terms in 2015 occurred in the following areas: state administration — by UAH 40.7 bln (from UAH 76.9 bln to UAH 117.6 bln) or 52.9%, which included spending for debt service; UAH 52.0 bln was allocated for defence against UAH 27.4 bln and UAH 14.8 bln in 2014 and 2013 respectively; UAH 10.1 bln (from UAH 44.9 bln to UAH 55.0 bln), or 22.5% was allocated for public order, security and judicial system.

4. In 2015, the principle of balancing the spending for social services and spending for development of the promising sectors of economy was virtually ignored because the Government chose a policy of saving and "tightening belts", arguing this position by the military operations in the eastern Ukraine and the crimes of the previous government. In particular, the share of funding the social security and provision decreased by 4% to 15%, education — by 2% to 7%, and healthcare — by 1% to 3% of the costs. The increase in intergovernmental transfers (increase by 2% to 32%) may offset this negative trend, and the growth of the local budgets, since they also include the spending for education and healthcare. When adopting the budget for 2016, the priorities of using the national financial resources should be identified as spending for defence and public order, which increased by UAH 9.8 bln and UAH 8.4 bln respectively, representing 17.5% of expenditures of the State Budget.

5. The level of the budget deficit is one of the most important indicators of financial security of any state. The greatest budget deficit values were registered in 2010 (5.94%) and 2014 (4.98%), indicating that ineffective policy of managing the income and expenditures, which in the future may lead to deterioration of the general state of economy and have a negative impact on the state of the real economy and social sphere.

6. There is a direct link between the budget deficit and the public debt. Our study leads to the conclusion that the public debt of Ukraine tends to growing, acquired an alarming pace and adversely affects the economy of Ukraine. However, given the latest official data and forecasts, the pace of growth of the public debt (from 197.2% in 2014 to 140.9% in 2015) is gradually reduced, which allows hoping for improvement of the economy.

7. To improve the effectiveness of the fiscal policy in Ukraine, the following measures should be taken, i.e. qualitatively improve the legal framework for the budget process in Ukraine; improve the system of budget planning; distinguish between the expenditures of the state and

local budgets in terms of budget decentralization; develop a system of evaluating the efficient spending of the budget funds; and reduce the hidden deficit of the state budget of Ukraine.

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